

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



December 3, 2001

CA-4

First meeting in January 2002

TO: PARTIES OF RECORD IN APPLICATION 00-05-018

This is the draft decision of Administrative Law Judge (ALJ) Galvin. It will be on the Commission's agenda at the next regular meeting 30 days after the above date. The Commission may act then, or it may postpone action until later.

When the Commission acts on the draft decision, it may adopt all or part of it as written, amend or modify it, or set it aside and prepare its own decision. Only when the Commission acts does the decision become binding on the parties.

Parties to the proceeding may file comments on the draft decision as provided in Article 19 of the Commission's "Rules of Practice and Procedure." These rules are accessible on the Commission's website at <http://www.cpuc.ca.gov>. Pursuant to Rule 77.3 opening comments shall not exceed 15 pages. Finally, comments must be served separately on the ALJ and the assigned Commissioner, and for that purpose I suggest hand delivery, overnight mail, or other expeditious method of service.

/s/ LYNN T. CAREW

Lynn T. Carew, Chief
Administrative Law Judge

LTC:sid

Attachment

Decision **DRAFT DECISION OF ALJ GALVIN** (Mailed 12/3/2001)

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Sierra Pacific Power Company, for authority to establish authorized rate of return on common equity for electric distribution for Year 2001. (U 903 E)

Application 00-05-018
(Filed May 8, 2000;
Petition for Modification
filed September 10, 2001)

ORDER MODIFYING DECISION 00-12-062

On September 10, 2001, Sierra Pacific Power Company (Sierra) filed a Petition to Modify Decision (D.) 00-12-062, to delete the Ordering Paragraph that requires Sierra to file an unbundled distribution services cost of capital application. In the alternative, Sierra seeks a change in the application filing date from November 4, 2001 to May, 2002.

D.00-12-062 established a reasonable return on equity for Sierra and replaced its annual cost of capital filing with an automatic trigger mechanism. It also established a procedure to address the limited issue of whether a one-time return on equity adjustment related to a distribution risk discount or unbundling adjustment should be included in its automatic trigger mechanism, which is the subject of this petition.

Sierra states that it will not be able to assess the impact of unbundling for three reasons. First, D.01-03-013 denied Sierra's request to sell its generation assets, in part, because of a recently-enacted California statute that prohibits the sale of public utility generation assets before January 1, 2006 if the assets are

currently serving California ratepayers.¹ Second, Sierra is precluded from divesting its Nevada generation assets before July 1, 2003, pursuant to Nevada's Assembly Bill 369 signed into law by the Governor of Nevada on April 18, 2001. Finally, Sierra has not divested itself of any generation assets and has no direct access customers.

The Office of Ratepayer Advocates (ORA) opposes Sierra's petition on the basis that the recent dramatic change in economic conditions (uncertainty in the financial markets, and weak employment and business spending) warrant the filing of a cost of capital application.

ORA recommends that we should stagger cost of capital proceedings for each energy utility so that parties and Commission participation can be orderly, sequential, and without scheduling conflicts.

We recognize ORA's concerns. However, there is a procedure in place that requires Sierra to file a cost of capital application upon a dramatic change in economic conditions. That procedure is Sierra's trigger mechanism. Upon ORA's specific request, we established an off-ramp provision as part of the trigger mechanism to automatically trigger a new cost of capital proceeding upon a dramatic change in economic conditions.² To date, the off-ramp provision has not been triggered.

Furthermore, it may be beneficial to stagger cost of capital proceedings, each of the three major energy utilities (San Diego Gas and Electric Company, Pacific Gas and Electric Company, and Southern California Edison Company)

¹ Chapter 2, Statutes of 1999-2000, First Extraordinary Session, enacted January 18, 2001.

² Pages 3-6 through 3-8 of Exhibit 8 to Application 00-05-018.

were relieved of the requirement to file 2002 cost of capital applications, pursuant to D.01-05-054. By that same decision, the major energy utilities are required, in part upon a petition of ORA, to file individual 2003 cost of capital applications on or before May 8, 2002. Sierra should be treated no differently in its filing of a cost of capital application.

It is reasonable to allow Sierra to defer its application. We will modify Ordering Paragraph 4 of D.00-12-062 to require Sierra to file a 2003 cost of capital application limited in scope to address any impact of risk associated with its unbundled distribution services by May 8, 2002.

Comments on Draft Decision

The draft decision of the ALJ in this matter was mailed to the parties in accordance with Pub. Util. Code § 311(g)(1) and Rule 77.7 of the Rules of Practice and Procedure. Comments were filed on _____, and reply comments were filed on _____.

Findings of Fact

1. There is a moratorium on the divestiture of generation assets by California jurisdictional electric utilities until 2006.
2. Sierra has not divested itself of any generation assets and has no direct access customers.
3. Sierra's trigger mechanism includes an off-ramp provision that requires the filing of a cost of capital application upon a dramatic change in economic conditions.
4. The major energy utilities are required to file individual 2003 cost of capital applications on or before May 8, 2002.

Conclusions of Law

1. Sierra's petition should be granted as set forth below.

2. This decision should be effective today so that Sierra may prepare its application expeditiously.

IT IS ORDERED that:

1. Ordering Paragraph 4 of Decision 00-12-062 shall be modified, as detailed in Attachment A to this order, to require Sierra Pacific Power Company to file a 2003 cost of capital application on or before May 8, 2002 limited in scope to address any impact of risks associated with its unbundled distribution services.
2. Application 00-05-018 is closed.

This order is effective today.

Dated _____, at San Francisco, California.

ATTACHMENT A
Page 1**DECISION 00-12-062 as MODIFIED BY DECISION 01-__-__****O R D E R****IT IS ORDERED** that:

1. Sierra Pacific Power Company's (Sierra) cost of capital for 2001 is as follows:

<u>Component</u>	<u>Capital Ratio</u>	<u>Cost Factor</u>	<u>Weighted Cost</u>
Long-Term Debt	47.56%	7.47%	3.55%
Preferred Stock	7.67	8.10	0.62
Common Equity	<u>44.77</u>	<u>10.80</u>	<u>4.84</u>
Total:	100.00%		9.01%

2. Sierra shall adjust its authorized revenue requirement to reflect the Return on Equity (ROE) being adopted in this decision and to adjust its rate components associated with the change in revenue requirement by an advice letter filing five days after the effective date of this order. Sierra shall use its 2001 distribution rate base set forth in its Cost of Service and Performance-Base Ratemaking (PBR) Application (A.) 00-07-001. Sierra shall true-up its distribution rate base to that rate base subsequently adopted in its Cost of Service and PBR application. The advice letter shall become effective January 1, 2001, subject to Energy Division's finding that the advice letter is in compliance with this order.

3. An automatic trigger mechanism for Sierra's ROE shall be adopted and replace the annual cost of capital filing as set forth in the body of this decision. Capital structure adjustments shall not be made through the automatic trigger

ATTACHMENT A
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mechanism. Applications required at the five-year interval and upon the triggering of an offramp shall be used to address any change in Sierra's capital structure. The automatic trigger mechanisms are summarized as follows:

- A benchmark shall be established based on AA utility bonds and triggered upon a change of at least 100 basis points.
- The ROE shall be updated by 50% of the change in interest rates when the trigger is exceeded.
- The interest rate measurement period shall be April to September of the same year.
- An offramp of 260 basis points shall be established.
- A formal cost-of-capital application shall be filed every five years from 1999, regardless of whether or not an automatic trigger mechanism offramp is reached prior to that time.
- Sierra shall file a yearly advice letter detailing the results of its trigger mechanism by November 1st of each year.

4. Sierra shall file a 2003 cost-of-capital application on or before May 8, 2002 limited in scope to address any impact of risks associated with its unbundled distribution services.

5. A.00-05-018 is closed.

This order is effective today.

Dated December 21, 2000, at San Francisco, California.

(END OF ATTACHMENT A)